

**REPORT OF THE AUDIT OF THE  
CAMPBELL COUNTY  
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
March 18, 2006 Through March 23, 2007**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**CAMPBELL COUNTY**  
**SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period**  
**March 18, 2006 Through March 23, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Campbell County Sheriff for the period March 23, 2006 through March 23, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$37,086,470 for the districts for 2006 taxes, retaining commissions of \$1,183,100 to operate the Sheriff's office. The Sheriff distributed taxes of \$35,887,285 to the districts for 2006 Taxes. Taxes of \$ 21 are due to the districts from the Sheriff and refunds of \$292 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Deposit Receipts On A Daily Basis

**Deposits:**

The Sheriff's deposits as of December 1, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$649,351

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John Dunn, Campbell County Sheriff

Members of the Campbell County Fiscal Court

Independent Auditor's Report

We have audited the Campbell County Sheriff's Settlement - 2006 Taxes for the period March 18, 2006 through March 23, 2007. This tax settlement is the responsibility of the Campbell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Campbell County Sheriff's taxes charged, credited, and paid for the period March 18, 2006 through March 23, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Steve Pendery, Campbell County Judge/Executive

Honorable John Dunn, Campbell County Sheriff

Members of the Campbell County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff's Office Should Deposit Receipts On A Daily Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

December 4, 2007



CAMPBELL COUNTY  
JOHN DUNN, SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period March 18, 2006 Through March 23, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 4,884,542	\$ 8,289,485	\$ 15,435,982	\$ 5,683,830
Tangible Personal Property	412,560	561,349	899,773	990,254
Increases Through Exonerations	483	917	2,675	562
Franchise Taxes	321,944	426,181	805,648	
Additional Billings	760	1,474	3,366	884
Penalties	18,745	30,202	60,190	22,578
Adjusted to Sheriff's Receipt	2,486	2,539	(2)	2,890
Gross Chargeable to Sheriff	5,641,520	9,312,147	17,207,632	6,700,998
<u>Credits</u>				
Exonerations	10,565	19,471	40,419	38,848
Discounts	90,567	150,863	275,683	113,433
Delinquents:				
Real Estate	15,817	25,411	35,064	18,406
Tangible Personal Property	3,151	3,193	3,962	3,959
Uncollected Franchise Taxes	203,624	239,949	483,442	
Total Credits	323,724	438,887	838,570	174,646
Taxes Collected	5,317,796	8,873,260	16,369,062	6,526,352
Less: Commissions (a)	226,294	269,923	409,226	277,657
Taxes Due	5,091,502	8,603,337	15,959,836	6,248,695
Taxes Paid	5,088,592	8,599,492	15,954,111	6,245,090
Refunds (Current and Prior Year)	2,945	3,865	5,918	3,628
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	\$ (35)	\$ (20)	\$ (193)	\$ (23)

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

CAMPBELL COUNTY  
 JOHN DUNN, SHERIFF  
 SHERIFF'S SETTLEMENT – 2006 TAXES  
 For The Period March 18, 2006 Through March 23, 2007  
 (Continued)

(a) Commissions:

10% on \$	10,000
4.25% on \$	17,409,229
2.5% on \$	16,369,062
1% on \$	3,298,179

(b) Special Taxing Districts:

Library District	\$	(20)
Health District		(5)
Extension District		(5)
Soil Conservation		1
Courthouse Commission		(1)
Fire District 1		(4)
Fire District 2		14
Fire District 4		(1)
Fire District 5		1
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Due Districts or (Refunds Due Sheriff)	\$	<u>(20)</u>
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(c) School Taxes

Common School	\$	(44)
Bellevue School		(4)
Dayton School		(150)
Silver Grove School		5
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Due District or (Refunds Due Sheriff)	\$	<u>(193)</u>
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CAMPBELL COUNTY  
NOTES TO FINANCIAL STATEMENT

March 23, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CAMPBELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
March 23, 2007  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of March 23, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 1, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreements as follows:

- Uncollateralized and Uninsured \$649,351

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 26, 2006 through March 23, 2007.

Note 4. Interest Income

The Campbell County Sheriff earned \$33,316 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Campbell County Sheriff collected \$160,925 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Campbell County Sheriff collected \$4,161 of advertising costs and \$3,490 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 taxes, the Sheriff had \$973 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department and should pay over \$1,667 to the Kentucky State Treasurer for unrefundable duplicate payments and unexplained receipts for tax year 2002.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To Honorable Steve Pendery, Campbell County Judge/Executive  
Honorable John Dunn, Campbell County Sheriff  
Members of the Campbell County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Campbell County Sheriff's Settlement - 2006 Taxes for the period March 18, 2006 through March 23, 2007, and have issued our report thereon dated December 4, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Campbell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Campbell County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Campbell County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Campbell County Sheriff's Settlement - 2006 Taxes for the period March 18, 2006 through March 23, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff's Office Should Deposit Receipts On A Daily Basis

The Campbell County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Campbell County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

December 4, 2007



## COMMENTS AND RECOMMENDATIONS



CAMPBELL COUNTY  
JOHN DUNN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period March 18, 2006 Through March 23, 2007

STATE LAWS AND REGULATIONS:

The Sheriff's Office Should Deposit Receipts On A Daily Basis

During our compliance testing of daily receipts, the auditor noted that the tax collections for January 12, 2007 were not deposited until January 17, 2007. Also included in this deposit were receipts for January 10, 2007, January 11, 2007, January 13, 2007, and January 16, 2007. KRS 68.210 requires daily deposits intact into a federally insured banking institution. We recommend that the Sheriff's office comply with this statute by making daily deposits in the future.

*Sheriff's Response: We will.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During the audit, it was noted that the bookkeeper counts and reconciles the cash drawers, prepares daily checkout sheets, posts to the receipts and disbursements ledgers and reconciles bank accounts. Some of these duties could be segregated and the Sheriff could provide compensating controls to improve the segregation of duties. We recommend that each employee count out his/her own cash drawer and reconcile the drawer to computer printouts of daily activity. We recommend that an employee with no access to cash review these reconciliations for completeness and accuracy. We then recommend that a deputy take deposits to the bank. We also recommend the Sheriff perform and document the following compensating controls.

- Cash recounted and deposited by the Sheriff.
- Surprise cash counts by the Sheriff.
- Reconciliation by the Sheriff of daily collection reports to the receipts ledger and deposit slip.
- Reconciliation by the Sheriff of monthly collection reports the receipts ledger and disbursements ledger.
- Examination by the Sheriff of tax distributions prepared by another employee.
- Receive bank statements unopened and scan checks for appropriateness and compare deposits to daily tax collection reports.
- Review all bank reconciliations prepared by bookkeeper and document approval.
- Review all documentation for disbursements before signing checks.

*Sheriff's Response: We are currently doing what our auditors recommend we do to correct this.*

